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## Making a loss? Take action now...

Remaining profitable in the current economic climate can be difficult, particularly for small and medium-sized enterprises. Indeed, if sales have slipped and your commodity costs have risen, you may have made a trading loss in the current period.

However, taking immediate action can help to prevent a further decline in profit. The following steps may help your business climb out of the red, even in these difficult times. But remember; there is no substitute for one-to-one professional advice, so please contact us to discuss how we can help your business remain profitable.

### Review your VAT position

Where your turnover has dropped below £65,000 for the last 12 months, consider deregistering for VAT. This will not suit all businesses, but those who sell directly to the public may well gain a competitive advantage by being outside the VAT net.

### Finalise your accounts

Quantify the loss as soon as possible by finalising your accounts for the loss-making period. Once you have a definite loss figure we can set this against your profits for the previous accounting period to generate a tax repayment or tax reduction. If the loss exceeds the previous year's profits we may be able to carry the excess back a further two years. However, this does depend on exactly when the loss-making period ended. You may need to change your accounting period slightly to accelerate the tax relief available for your loss.



### Revise your income tax payments

Self-employed traders should apply to HM Revenue and Customs (HMRC) to reduce the next income tax payment, due on 31 July, to nil. Please contact us to check your loss position before you do this.

### Consider a payment plan

If you are experiencing difficulties in finding the cash to pay PAYE, VAT or any other business tax, contact the HMRC Business Payment Support Service to arrange a payment plan before the tax becomes overdue.

### Claim R&D tax credits

If your company is undertaking research and development projects (R&D) you could get HMRC to repay some or all of the PAYE and NI you have paid for your loss-making period. You will need to submit a claim for R&D tax credits, but we can assist you in this matter.

### Don't forget capital allowances

Some companies may also be able to claim a repayment of PAYE and NI where the loss is due to the purchase of energy-saving equipment that qualifies for a first year 100% capital allowance.

However your trading loss arose, the best policy is to act quickly to reduce your business tax payments and generate tax refunds. We can help you identify and eliminate areas where your business may be leaking profits, so contact us today to help put your firm back on the road to recovery!

Spring 2009

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# Flexible working: a guide for business

In April 2009 the right to request flexible working is extended to parents of children up to the age of 16. The new rules mean an extra 4.5 million parents will potentially gain the right to apply for flexible working. Although some small business representatives have expressed concerns over the changes, the good news is that managing requests should be relatively straightforward.



## Who can apply for flexible working?

Employers are required by law to consider applications for flexible working from any employees covered by the 'right to request' legislation. The legislation allows employees to submit an application to care for either:

- a child under six years of age (under 16 from April 2009)
- a disabled individual under age 18
- or an adult who requires care (as defined by the Department for Business, Enterprise and Regulatory Reform).

More generally, those wishing to apply must:

- be an employee – agency workers do not qualify
- have continuously worked for the business for at least 26 weeks on the date they make their request
- not have made another statutory request in the past 12 months.

## The application process

Initially an employee must submit a written request, which can take the format of a letter or email, or an application form. It must outline the nature of the request and should mention the benefits of flexible working to the organisation as perceived by the employee.

You can agree to requests solely on the basis of this written application, but do remember that you are under no obligation to accept immediately. If you would like to consider the application further, the next step is to arrange a meeting with the employee, which should be held within 28 days of receipt of the application. You must notify the employee of your decision within 14 days of the meeting.

## Evaluating an employee's request

You need to establish whether the employee's desired work pattern can be accommodated within the needs of the business.

Here are some points to consider when making your decision:

- ✓ Is job-sharing an option and, if so, is there another suitable candidate to make this a possibility?
- ✓ Does the individual need to be present for the full working day?
- ✓ Does the business go through peaks and troughs in demand or activity? If so, are these predictable?
- ✓ Can the workload be completed in the number of hours the employee would like to work?
- ✓ Is there a similar job the employee could perform on a part-time basis?
- ✓ Could the employee perform the job from home on designated days?
- ✓ The consequences for your business
- ✓ The cost of recruiting and training a replacement
- ✓ The effect on other members of staff.

A free interactive survey, which helps employers determine the most appropriate form of flexible working for their organisation, is available on the Business Link website – [www.businesslink.gov.uk](http://www.businesslink.gov.uk).

## Can I refuse a request?

Yes. Employers can reject a flexible working request, although only for the following reasons:

- planned structural changes
- the burden of additional costs
- a detrimental impact on quality
- the inability to recruit additional staff
- a detrimental impact on performance
- the inability to reorganise work among existing staff
- a detrimental effect on the firm's ability to meet customer demand
- lack of work during the periods the employee proposes to work.

Businesses that refuse a request on any of these business grounds should notify the applicant in writing. Wherever possible, you should endeavour to put forward an alternative proposal.

## The benefits for business

- Greater cost-effectiveness and efficiency, such as savings on overheads when employees work from home
- An employer that is sympathetic to the needs of individuals may encourage employee commitment and loyalty
- Considering applications for flexible working may enable you to retain valued employees
- Flexible workers can enable you to respond to changes in workload and demands within the business, particularly during holiday periods
- Increased customer satisfaction and loyalty as a result of the above.

## Types of flexible working

The term 'flexible working' encompasses a wide range of working patterns, including:

- Part-time working
- Flexi-time
- Term-time working
- Staggered hours
- Time off in lieu
- Compressed working hours
- Shift swapping
- Self-rostering
- Annualised hours
- Job-sharing
- Homeworking
- Tele-working
- Breaks from work - including unpaid sabbaticals, or career break schemes.

# The new rules on intestacy

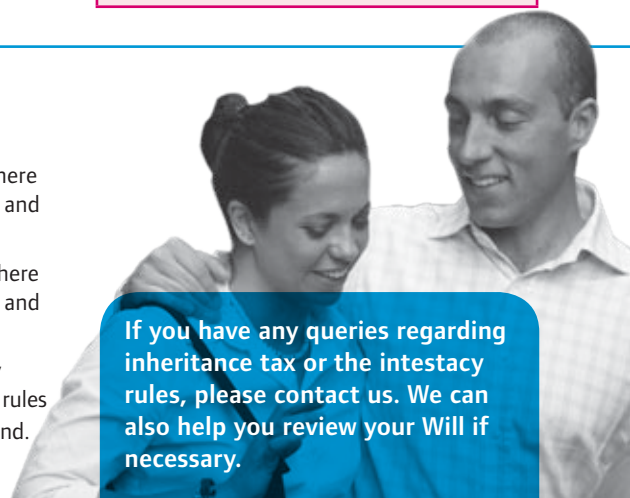
The Ministry of Justice has announced an increase in the amount of the statutory legacy on intestacy for England and Wales. The statutory legacy is the amount which an individual is entitled to receive from the estate of their husband, wife or civil partner where the individual has not made a Will.

From 1 February 2009 the statutory legacy is as follows:

- £250,000 (from £125,000) where there is a surviving spouse or civil partner and children
- £450,000 (from £200,000) where there is a surviving spouse or civil partner and parents or siblings, but no children.

Please note that the statutory limits only apply in certain circumstances. Different rules also apply in Scotland and Northern Ireland.

If you have any queries regarding inheritance tax or the intestacy rules, please contact us. We can also help you review your Will if necessary.



# Employing a family member

In his December Pre-Budget Report, the Chancellor announced that controversial legislation to prevent 'income shifting' would be postponed until at least 2010. However, HMRC reiterated that it 'firmly believes it is unfair' to allow a minority of individuals to benefit financially from shifting part of their income to someone else who is subject to a lower rate of tax.

**So with the employment of a family member the preferred option for many small business owners, how can firms avoid being subject to an investigation by HMRC?**

Paying for labour is a reasonable business expense and should be fully tax deductible, yet Tax Inspectors are often suspicious when the labour has been supplied by the proprietor's spouse or children. Where the money remains within the family you should supply evidence to show the payment is entirely for the business, and not a device to move profits into the hands of a relative who will pay little or no tax on the income.

Consider the following guidelines to help prove the business case for family wages:

- 1 Pay a commercial rate for the work done. This rate is not always easy to find, but a starting point should be the relevant National Minimum Wage (NMW) rate. There are three hourly NMW rates:
  - £3.53 for those aged 16 and 17
  - £4.77 for 18 to 21 year olds and
  - £5.73 for those aged 22 and over.

If the relative lives at home and the business is not run as a company, you are not required to pay the NMW rate, although this is a good commercial yardstick.

- 2 Record the work done and the hours worked. Only with solid evidence of the time spent or units of stock processed by an employee, will you be able to prove that sufficient work was completed to justify the wages paid.
- 3 Pay the wages due in cash or into the worker's bank account. The money must be seen to leave the business bank account and be paid to the worker, not for the benefit of the proprietor of the business.
- 4 If the wage exceeds the National Insurance threshold of £90 per week (for 2008/09), process the wage paid through the payroll and deduct tax and National Insurance where necessary. If the individual does not have a P45 from a previous job, a P46 form will need to be completed.
- 5 Draw up some simple conditions of employment to form the basis of the worker's employment contract. An example can be downloaded from the Business Link website – [www.businesslink.gov.uk](http://www.businesslink.gov.uk).

Without some evidence of the work done, and actual wages paid, the Tax Inspector is likely to refuse to let the business deduct the labour costs from its profits.

**This article is intended for guidance only, and is not exhaustive. We can advise you on the best route for your business, and would welcome the opportunity to discuss your individual circumstances.**

## Changes to tax relief on company cars

**The 2008 Pre-Budget Report confirmed changes to the way that businesses receive relief for the cost of vehicles through capital allowances. The new rules, which are effective from April 2009, could have significant implications for firms that include company cars in employee remuneration packages.**

### Buying cars

For many years the tax relief available for cars costing more than £12,000 has been capped at £3,000 per year. All cheaper cars qualify for 20% tax taper relief per year, unless the vehicle has low CO<sub>2</sub> emissions (up to 110g/km). In this instance 100% of the cost can be claimed in the first year.

These patterns of tax relief will remain in place for cars the business owns in March 2009. However, for cars purchased from 1 April 2009 (6 April 2009 for unincorporated businesses) the tax relief will be given according to the vehicle's CO<sub>2</sub> emissions and the cost limit will be ignored:

- up to 160g/km – 20% per year (reducing balance)
- over 160g/km – 10% per year.

Cars are specifically excluded from plant and machinery eligible for the Annual Investment Allowance. Where there is no adjustment made for any private use of the vehicle, the car will go into the appropriate capital allowance pool. Where there is a private use adjustment the car will be dealt with outside of the pool.

Under the new system it will take longer to achieve full tax relief for the cost of a car, particularly for higher polluting vehicles. These restricted levels of tax relief will also apply to taxis (not black cabs) and hire cars, so please ask us for further details if you run a taxi firm.

### Selling cars

Currently when a company sells a car which originally cost more than £12,000, the balance of the cost that has not already received tax relief is given to the business in one lump sum – this is called a balancing allowance.

Cars acquired before 1 April 2009 will continue to attract a balancing allowance when they are sold before 1 April 2014.

From this point all old cars will be added to the main pool of business assets, and will not receive a balancing allowance on sale.

There is an exception to general pooling when cars have an element of non-business use. Such vehicles will continue to be dealt with in single assets pools (10% or 20%) to enable the private use adjustment to be made.

When the company sells a post-March 2009 car the balance of the unclaimed cost will remain in the pool of business equipment and will gradually be given tax relief at 10% or 20% per year, depending on its CO<sub>2</sub> emissions. However, companies that buy and sell a large quantity of expensive cars may lose out under this new system, and should therefore consider leasing instead of purchasing outright. Partnerships and sole-traders will not be hit as badly.

### Leasing cars

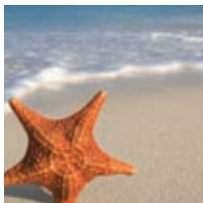
The tax relief given for leasing costs is restricted by a complicated formula where the car's list price is over £12,000. This formula is abandoned for leases commencing from 1 April 2009 (6 April 2009 for unincorporated businesses), as most leasing costs will be allowed in full. If the leased car has CO<sub>2</sub> emissions exceeding 160g/km then just 85% of the leasing costs will be deductible for tax purposes.

**For information and advice on tax-efficient business motoring, please contact us.**



# Business Round-Up

## Increase in statutory holiday entitlement



On 1 April 2009 the statutory holiday entitlement rises from 4.8 weeks (24 days) to 5.6 weeks (28 days) for employees who work a five day week. The new entitlement, which is the second stage of a two-phase increase, will also apply to part-time workers on a pro-rata basis.

Days off for public or bank holidays may count towards the minimum allowance, providing that they are treated as paid leave. However, from 1 April 2009 payment in lieu will not be permitted. Depending on the employment contract, payment in lieu of any leave above the statutory entitlement is allowed.

As the increase in holiday allowance is a beneficial change for workers, the Government has confirmed that employment contracts will not need to be reissued. However, businesses should inform staff of the change through some form of written communication.

## HMRC announces second offshore tax campaign



HMRC has confirmed it will embark on a second campaign to target offshore bank accounts. The Offshore Disclosure Facility (ODF) will pursue account holders with money in building societies and any of the 300 UK-based banks that have offshore operations. The Revenue will then write to individuals directly asking them to pay tax

on any undeclared income. It is thought the penalty will be set at 20% or 30% of the tax due, even though HMRC has the power to

charge 100%. Those who fail to declare their funds may also face prosecution.

During the last campaign account holders with undisclosed liabilities were offered the incentive of a cap of 10% on the penalty for not disclosing their tax debts to HMRC. However, approximately 50,000 people failed to come forward, prompting the Revenue to launch a second campaign.

## Prompt payment code is launched



The Government has launched a new code of practice aimed at increasing the speed of payments to small businesses.

The Prompt Payment Code, which was developed in partnership with the Institute of Credit Management, focuses on three main areas: a commitment to pay suppliers

on time; to give clear guidance to suppliers; and to encourage good practice.

Large companies have now been urged to sign up to the agreement to help alleviate the burden of late payment on small enterprises.

'Businesses now need to pick up the baton and ensure that the principles of fairness, timeliness and clarity are applied to their own contractual relationships with smaller suppliers,' said the Institute of Directors.

Is late payment a problem for your firm? If so, contact us today to arrange a business planning review.

If you would like more information on any of these articles, please contact us.

## Web Watch

### Essential sites for business owners

[www.workingfamilies.org.uk](http://www.workingfamilies.org.uk)

Contains information and advice on flexible working for employees and businesses

[www.promptpaymentcode.org.uk](http://www.promptpaymentcode.org.uk)

Outlines the details of the new Prompt Payment Code

[www.evaluateit.co.uk](http://www.evaluateit.co.uk)

Free help and technology advice for small businesses

[www.efd.org.uk](http://www.efd.org.uk)

Home of the Employers' Forum on Disability

## Reminders for your Spring Diary

### March 2009

- 31 End of Corporation Tax financial year.  
End of CT61 quarterly period.  
Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2008.

### April

- 5 Last day of 2008/09 tax year.  
Deadline for 2008/09 ISAs.  
Last day to make disposals using the 2008/09 CGT exemption.  
Last date for contracting back into the State Second Pension for 2008/09.
- 14 Due date for income tax for the CT61 period to 31 March 2009.

- 19/22 Quarter 4 2008/09 PAYE remittance due.
- 20 Interest will begin to accrue on unpaid PAYE/Ni for 2008/09.
- 30 Normal annual adjustment for VAT partial exemption calculations (monthly returns).

### May

- 3 Last day for notifying car changes in quarter to 5 April – P46 (Car).
- 19 Last day for filing forms P14, P35, P38, and P38A – 2008/09 PAYE returns – without incurring penalties.
- 31 Last day to issue 2008/09 P60s to employees.